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26 DEC 1973

MEMORANDUM FOR: Director of Naval Intelligence
Office of the Chief of Naval Operations
Department of the Navy
Washington, D.C. 20350

SUBJECT : Impact of Increased Trade on Soviet
Military Capabilities

REFERENCE : Memorandum from Director of Naval
Intelligence to the Director of
Central Intelligence, "Impact of
Increased Trade on Soviet Military
Capabilities", dated 5 December 1973

1. As you requested, we have reviewed our previous correspondence with you on the impact of US-Soviet trade on Soviet military capabilities. We still believe that the evidence is not at hand to support the definitive study that Admiral Zumwalt would like to see.

2. In our October memorandum we concluded that increased US-Soviet (or Western-Soviet) trade is unlikely to increase the USSR's military power unless export controls are so weakened that they permit important qualitative improvements in weapons performance and production. We believe that the trade expansion of the past five years or so has had a small effect on the level of Soviet military technology. The issue, then, is what the Soviets are acquiring now or are likely to acquire from the US in certain high technology categories. The Intelligence Community is making a substantial effort to answer this question.

3. As you know, the Department of Defense is sponsoring several studies of the implications of a relaxation of US export controls. We have been told that preliminary results of the Battelle study (Technology Implications of Relaxing Controls) and the RAND study (Advanced Technology

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Export) will be available in late January. We are preparing a paper for PFIAB that deals with what the Soviets are obtaining or likely to obtain from US firms under the cover of detente. In addition, our current research program includes separate studies of the Soviet position in nuclear power, semiconductors, satellite communications, telecommunications, computers, and electronic instruments. If the findings of these studies warrant a Community estimate, one could be undertaken perhaps in February or March.

/s/ Bill

W. E. Colby
Director

CONCUR:

Deputy Director for Intelligence

Date

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27 OCT 1973

MEMORANDUM FOR: Director of Naval Intelligence
Office of the Chief of Naval Operations
Department of the Navy
Washington, D.C. 20350

SUBJECT : Proposed Estimate of Impact of Trade
on Soviet Military Capabilities

REFERENCE : Memorandum from Director of Naval Intel-
ligence to Director of Central Intelli-
gence, "Impact of Increased Trade on
Soviet Military Capabilities" dated
28 September 1973

1. Your memorandum suggests that the intelligence community should address the question, "What impact will greatly expanded trade have on Soviet military capabilities over the long term?" We agree that the question is important but think that it would be premature to under-
take an estimate at this time.

2. In particular, we share your view that East-West trade should be monitored closely because of its possible implications for Soviet military capabilities. Our analysis, however, leads us to believe that the growing trade between the USSR and the West is not a danger in and of itself. Instead, as the attached memorandum concludes, the problem posed by this trade centers on the question that the intelligence community has considered so often in the past -- the potential effect of the export of certain categories of machinery and technology on Soviet weapons development.

3. These qualitative aspects of your question are being studied in several parts of the intelligence community. When the results of these studies become available, we will be in a better position to decide whether

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a community estimate of the impact of trade on Soviet military capabilities is likely to be successful. In the meantime, we should make sure that the progress of studies dealing with the transfer of military-related technology is reported quickly to the various intelligence components concerned with the problem.

/s/ [redacted]

W. E. Colby
Director

Attachment
As stated

Concur:

[redacted]

Deputy Director for Intelligence

11 OCT 1973

Date

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(10 Oct 73)

MEMORANDUM

The Impact of Increased Trade on
Soviet Military Capabilities

1. This memorandum offers some preliminary views on the impact of increased trade on Soviet military capabilities. It considers first the possible role of US-Soviet trade and then the effect of higher levels of Western-Soviet trade.

2. The question of US-Soviet trade cannot be considered in isolation. Western Europe and Japan are our principal competitors in the sale of machinery and technology to the USSR, and they stand ready to supply most of what we might conceivably deny to the Soviets. The US enjoys a decided technological advantage over alternative suppliers in a few important areas: for example, oil production and exploration equipment, advanced integrated circuits, some data processing equipment, and a few specialized kinds of equipment for truck production. In these cases the USSR would prefer to buy from the US, but West European and Japanese equipment would also raise the level of Soviet technology in these sectors substantially. Therefore, the US unilaterally cannot do much to restrict the supply of Western technology to the USSR. Moreover, unless the world situation changes radically, the US cannot expect to persuade other Western nations to restrict their exports to the USSR.

3. Imports of Western equipment and technology are growing but are still not a major determinant of the USSR's general economic capabilities. These imports are limited by the USSR's ability to export to the hard currency market and its need to spend hard currency for grain and consumer goods. Although the USSR obtains credits from the West to finance substantial imports, it must eventually repay these credits. Repayment obligations have been increasing rapidly with the result that the ratio of debt service to export earnings has reached a high level. As the debt service burden rises, Moscow will become more reluctant to incur additional debt, and its ability to finance imports will grow more slowly. Less than 2% of all the machinery and equipment installed in the USSR comes from the West. And, although aggregate data understate the

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importance of Western goods because of their superior quality, the effectiveness of this imported equipment is hampered by deficiencies in Soviet economic management. Overall, we doubt that imports of Western machinery and equipment in the next decade or so will raise the rate of Soviet economic growth by more than a fraction of 1%.

4. An increase of this magnitude in Soviet economic capabilities would not bring an expansion of military expenditures in and of itself. The USSR can clearly afford to expand its military programs even if the rate of Soviet economic growth remains as low as in the last two years. In the past the Soviet leadership managed to extract large annual increases in defense outlays from considerably smaller national products. We believe that the scope of future military programs will depend on Soviet intentions and on developments in military technology here and in the USSR rather than on small changes in the rate of economic growth.

5. We conclude that a larger volume of Western-Soviet (or US-Soviet) trade is unlikely to increase the USSR's military power unless export controls are so weakened that they permit important qualitative improvements in weapons performance and production. In the past the denial of some kinds of Western technology has made some Soviet military programs more costly and less effective. Export controls have also delayed the development and deployment of some weapon systems. Since the technological level of some Soviet military production still falls short of Western achievements, the USSR could gain militarily in the long term by importing certain kinds of production equipment or technology from the West.

6. Research on the impact of an erosion of export controls on Soviet military capabilities is underway in several parts of the Intelligence Community. The Advanced Research Projects Agency, for example, has let several contracts in this general area.* In this kind of research,

* The Battelle Memorial Institute is investigating the "Technology Implications of Relaxing (Export) Controls," the Hudson Institute is looking into possible outcomes of alternative export policies, and RAND-Santa Monica is studying both the economic and military aspects of advanced technology. Two of these studies are scheduled for completion next April, the third in July 1974.

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however, it is much easier to determine that Soviet acquisition of a particular technology will improve the performance of a particular weapons system than it is to measure the overall contribution to Soviet military power of the acquisition of a range of Western technologies.

7. In sum, there is very little evidence that increased trade will enhance the USSR's military capabilities if the trade is confined to products that will not improve the quality of Soviet weapons. The question of desirable qualitative limits to the transfer of technology to the USSR is the critical intelligence issue in Western-Soviet trade.

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